Chapter Three

Options for Curtailing Entitlements and Their Effects on the Budget

Limiting entitlement benefits for higher-income recipients could have significant effects on the federal budget and on the incomes of beneficiaries. The extent of those effects depends largely on the specific approach taken. This study examines three such options. One would subject entitlements to the federal individual income tax, a second would reduce benefits at increasing rates for middle- and high-income families, and a third would deny benefits entirely to families with the highest incomes. For simplicity's sake, the ensuing discussion refers to these approaches as the tax option, the benefit reduction option, and the benefit denial option.

As specifically formulated for this study, the three options would have substantially different budgetary effects. The varying effects arise because the options reduce the net benefits of different numbers of recipients and use markedly different rates of benefit reduction. The tax option would affect the largest number of recipients, but it would tax away relatively small fractions of their benefits. In contrast, the benefit reduction option would make larger cuts in the benefits of fewer recipients. The benefit denial option would affect only about 1 percent of recipients; however, those affected would, on average, lose more than three-fourths of their benefits.

The broader reach of the tax option would have the greatest budgetary effect, increasing revenues by nearly $260 billion over the 1995-1999 period. The benefit reduction option formulated for this analysis would save about $190 billion over the same period. The benefit denial option would save roughly $45 billion.[1]

The relative sizes of these effects stem directly from the particular forms of the options that the Congressional Budget Office examined. Those options were chosen because they represent actual proposals. Modifying the options in various ways would change the effects they produced. Each option could be adjusted to make its budgetary impact more comparable with the others or to affect a similar number of beneficiaries.[2]

For example, if the tax option exempted the benefits of couples with incomes below $13,000 and of other taxpayers with incomes below $10,000, it would generate, over the 1995-1999 period, budgetary savings roughly equal to those of the benefit reduction option. Denying entitlements to all couples with incomes of more than $62,000 and other families with incomes of more than $50,000 would also yield cuts in entitlements similar to those of the benefit reduction option. Yet despite the similar budgetary savings that the modified options would generate, they would still affect different beneficiaries and would take different amounts away from the families who were affected. Those considerations are of major importance to policymakers as they make decisions about changing entitlements.

Make Entitlements Subject to the Individual Income Tax

The first option would broaden the measure of income used in the federal individual income tax to include all

1. Appendix A discusses CBO's methods for estimating the budgetary savings from the policy options.

2. Appendix B shows the budgetary savings and distributional effects of the tax and benefit denial options after adjusting them to make their savings comparable with those from the benefit reduction option discussed in this chapter.

entitlements. The income tax now excludes from taxable income all cash welfare payments from federal and state governments as well as the value of in-kind benefits such as food stamps and health care assistance. Also untaxed are significant portions of Social Security payments and veterans' compensation and pensions. This option would make more entitlement benefits subject to federal taxes. It would not affect recipients of unemployment benefits or federal civilian and military pensions because those benefits are already fully subject to federal income taxes.

The tax option CBO formulated for this analysis would include as taxable income 85 percent of all Social Security and Railroad Retirement benefits for all taxpayers. Excluding 15 percent of those benefits approximates the way the income tax treats pensions to which employees contribute: the worker's own contributions (which are made out of after-tax earnings) are not taxed when pension benefits are distributed. The employee's share of the payroll tax comes out of his or her after-tax earnings. For most retirees, the taxes they pay during their working years equal no more than 15 percent of the benefits they receive in retirement.

Under current law, nearly four-fifths of the recipients of Social Security and Railroad Retirement pay no taxes on their benefits. Less than 10 percent of them pay taxes on 85 percent of their benefits.[3]

Taxing all entitlements brings up the question of how to place a value on health benefits (or other assistance received in kind rather than in cash). The whole issue produces widespread disagreement. This analysis uses the insurance value of each program--the total cost to the government of providing benefits divided by the number of people enrolled in the program. That approach allocates costs among beneficiaries without regard to the services any one individual uses or the value any one enrollee places on benefits. The method is straightforward, but it could create practical problems for low-income recipients who may not have the money to pay taxes on benefits that they receive in kind.[4]

The option's treatment of Medicare benefits would parallel that of Social Security: it would tax 85 percent of the insurance value of hospital (Part A) benefits--which are financed through payroll taxes that workers and employers both pay--plus the insurance value of benefits under Supplementary Medical Insurance (Part B) that are not funded through premiums. Because hospital costs have escalated rapidly in recent years and because contributions to Medicare began only in 1966, almost every elderly Medicare enrollee has paid much less in payroll taxes than 15 percent of the actuarial value of his or her Part A benefits. As a result, excluding 15 percent of the value of Part A benefits is a more generous tax treatment than excluding 15 percent of Social Security benefits--although the percentage is the same. Because about one-fourth of funding for the SMI part of Medicare comes from premiums paid by enrollees, this option would include as taxable income the difference between the insurance value of SMI coverage and those premiums.

The option would also tax the full value of other entitlement benefits, including Aid to Families with Dependent Children, Supplemental Security Income, veterans' compensation and pensions, the face value of food stamps, and the insurance value of Medicaid. Federal and state governments finance all of these programs through general tax revenues; beneficiaries do not contribute directly to the programs from which they receive assistance. For that reason, the tax option gives none of these benefits the type of partial exemption provided for Social Security and Medicare.[5]

Budgetary Savings

Expanding the coverage of the income tax to include entitlement benefits that are now untaxed would significantly increase the amount of income subject to tax. As a consequence, federal revenues would rise by about $18 billion in fiscal year 1995 and by nearly $260 bil-

3. Current law includes in adjusted gross income the lesser of the following two calculations: one-half of Social Security and Railroad Retirement benefits *or* one-half of the excess of the taxpayer's modified adjusted gross income (AGI plus nontaxable interest plus one-half of Social Security and Railroad Retirement benefits) over a threshold of $32,000 for married couples filing jointly, $25,000 for single taxpayers, and zero for married people filing separately. Taxpayers with modified AGI over a second threshold ($44,000, $32,000, and zero, respectively) must include in AGI the lesser of 85 percent of benefits or 85 percent of modified AGI over the second threshold. Before 1994, a maximum of one-half of benefits was counted in AGI.

4. Chapter 5 discusses this issue more completely.

5. The benefits from other entitlement programs, such as the income-replacement portion of workers' compensation, could be taxed, but they are excluded from this analysis because of the lack of requisite data.

lion over the 1995-1999 period (see the top line of Table 11).

Nearly one-half of the additional revenues would come from the increase in the portion of Social Security benefits subject to the income tax. Almost three-fourths of the rest of the gain would come from taxing the insurance value of Medicare. Taxing means-tested benefits would produce less than one-eighth of the five-year savings. By 1999, the added revenues from taxing all entitlements would offset about 7 percent of total federal spending for entitlements.

Making only some entitlements taxable would reduce the added revenues, but those losses would be relatively small as long as Social Security and Medicare were among the programs still included. Taxing only those two programs would raise revenues by nearly $220 billion over five years--roughly 85 percent of the gains that would come from taxing all entitlements. Taxing only Social Security would lower the increase in revenues, however. Over the 1995-1999 period, new revenues from including only Social Security would be about $100 billion, less than 40 percent of the gains if all benefits were taxed. Government pensions (minus contributions by workers) and unemployment compensation are already fully taxable, so no additional revenues can be obtained from taxing them.

Excluding some benefits from a person's taxable income would reduce the gains in revenues by more than the revenues that would come from taxing the

Table 11.
Additional Federal Revenues from Broadening Taxable Income to Include Entitlements, Fiscal Years 1995-1999 (In billions of dollars)

Programs Affected	1995	1996	1997	1998	1999	1995-1999
All Programs[a]	18.0	52.6	57.0	62.3	68.1	258.0
All Programs Except Medicaid	16.7	48.0	52.1	56.8	62.1	235.7
All Programs Except Medicare and Medicaid	9.5	24.6	25.5	26.5	27.4	113.5
Cash Social Insurance Programs Only	9.1	23.3	24.0	24.9	25.7	107.0
Social Security and Medicare Only	15.6	44.4	48.4	52.9	58.0	219.3
Social Security Only	8.5	21.4	22.2	23.0	23.8	98.9
Means-Tested Programs Only	0.3	1.2	1.3	1.4	1.5	5.7

SOURCE: Congressional Budget Office.

NOTE: The table covers the following entitlements: cash social insurance (Social Security and Railroad Retirement, unemployment compensation, and veterans' compensation and pensions); health programs (Medicare and Medicaid); and means-tested programs (Supplemental Security Income, Aid to Families with Dependent Children, and the Food Stamp program).

a. Unemployment compensation is already fully taxable.

omitted benefits alone. Counting the benefits from other programs as taxable income increases an individual's income--the base to which tax rates are applied--and may move that taxpayer into a higher tax bracket. Thus, if benefits from all programs were taxed, benefits from one program would be taxed at a higher rate than would apply if only its benefits were being taxed. For example, including both Social Security and Medicare benefits in a person's taxable income would increase revenues by roughly 20 percent more than the sum of the increases generated by including each benefit by itself. This example illustrates why total gains in revenues cannot easily be taken apart to estimate the effects of making specific benefits taxable.

Taxing means-tested benefits would affect only a small fraction of beneficiaries and generate relatively little revenue. If only AFDC, SSI, and food stamps were taxable, gains in revenues over the 1995-1999 period would be less than $6 billion. Because the participants in these programs have low incomes, they generally pay no income taxes. And those beneficiaries who would pay taxes probably participate in the programs for only part of the year: they may be poor for a few months but have somewhat higher annual incomes.

Modifying the Tax Option

Four types of modifications to this option would change its budgetary savings and how it affected beneficiaries--both who would be affected and how much their after-tax benefits would fall. One change would exclude from taxable income a base amount of entitlements for each taxpayer. For example, couples filing jointly might be able to exclude the first $7,000 of their income from entitlements; other taxpayers might be able to exclude the first $4,000. This adjustment would protect the poorest beneficiaries, but it would substantially reduce the added tax payments for taxpayers at all income levels.

The second type of modification would establish a threshold that income would have to exceed before benefits would be taxable, the same way that Social Security benefits are not taxable for people whose incomes are below a specific threshold. For example, families with adjusted gross incomes--including their benefits--below $10,000 might be exempt from taxes on their benefits. But as their incomes rose, an increasing share of their entitlements would be taxed. When a family's income reached $20,000 or more, all of its benefits would be taxed. This adjustment would keep families with the lowest incomes from losing some of their after-tax benefits. It would also lessen the benefits that other low-income families would lose.

A third change would make only a fraction of a family's benefits subject to taxation (again, like Social Security). Compared with taxing all benefits, this change would reduce the option's impact on all recipients--no one would have all of his or her benefits taxed. In addition, counting only part of a family's benefits would protect those recipients with the lowest incomes: by taxing only a fraction of their benefits, the system would not move them above the point where they would have to start paying taxes on those benefits.

A final alteration would exempt some entitlements from taxation--for example, means-tested benefits such as Medicaid, food stamps, and AFDC. This approach would reduce the number of families who would have to pay taxes on their entitlements by exempting the neediest families.

Reduce Entitlements for Middle- and High-Income Recipients

The Concord Coalition recently proposed that federal entitlements be reduced rapidly as incomes rose.[6] It suggested two possible mechanisms: one indirect (supernormal tax rates imposed under the individual income tax) and one direct (new programmatic structures that would reduce benefits). Under the coalition's proposal, families with incomes above $40,000 would lose benefits according to a graduated scale: those with incomes between $40,000 and $50,000 would lose 10 percent, with that share increasing by 10 percentage points for each $10,000 of income up to 85 percent of benefits above $120,000 of total income.

6. Concord Coalition, *The Zero Deficit Plan* (Washington, D.C.: Concord Coalition, 1993).

The Concord Coalition's plan would consider non-entitlement income first in determining the rate by which benefits should be reduced. In addition, the plan would reduce benefits only to the extent that they caused total income to exceed $40,000. Some examples may be helpful.

- A family who received $15,000 of Social Security and $30,000 of nonentitlement income would lose $500 of its benefits--10 percent of the $5,000 by which its total income exceeded $40,000. (Remember that the plan counts nonentitlement income first.)

- A family who had $15,000 of Social Security and $45,000 of nonentitlement income would lose $2,500 of its Social Security benefits--10 percent of the $5,000 that fell in the $40,000-$50,000 income range and 20 percent of the $10,000 that fell in the $50,000-$60,000 category.

- A family who had $15,000 of Social Security and $120,000 or more of nonentitlement income would lose $12,750 of its Social Security benefits--85 percent of the $15,000.

The coalition's plan would treat married couples and larger families the same as single people and would adjust for inflation all of the dollar values it used as limits and ranges. The plan also calls for implementing the proposal gradually over six years.

The option that CBO analyzed mimics the Concord Coalition's proposal in all ways but two: it would omit certain benefits for which adequate data do not exist, and it would start to reduce benefits immediately, not gradually over time. Specifically, the option that CBO simulated would cover Social Security and Railroad Retirement, unemployment compensation, veterans' compensation and pensions, AFDC, SSI, the face value of food stamps, and the insurance value--minus any premiums paid--of Medicare and Medicaid.[7] The option would go into effect fully on January 1, 1995. (Gradually phasing in the reductions would reduce the budgetary savings discussed below.)

Budgetary Savings

The benefit reduction option would reduce the federal government's total outlays for entitlements by about $9 billion in fiscal year 1995 and by about $190 billion between 1995 and 1999 (see the top line of Table 12).[8] Roughly 60 percent of the savings would come from recapturing Social Security benefits; nearly 30 percent would stem from recovering Medicare costs from the affected enrollees. Only about 3 percent of the option's five-year savings would come from including means-tested benefit programs in the reduction scheme.

Dropping some programs from this option would reduce the budgetary savings it might generate. Excluding health insurance programs, for example, would lower the savings in outlays by about one-third. Reducing only Social Security and Medicare benefits would retain nearly 90 percent of the savings. Applying reductions only to Social Security would save slightly more than $100 billion during the 1995-1999 period.

Modifying the Benefit Reduction Option

Modifications to this option could change the number of beneficiaries who would be affected and the amount of budgetary savings that the option would generate. Raising the level of income at which benefit reductions first begin would exempt more families from cuts in their entitlements. In addition, it would lessen the size of the cuts for those families who would lose less than 85 percent of their benefits. Reducing the fraction of benefits that a family in any income range would lose and raising the upper threshold for the maximum cut of 85 percent would have similar effects. Lowering the maximum loss of benefits below 85 percent would lessen the option's effect--but only for families with the highest incomes.

Any of the above changes would reduce the option's budgetary savings. Of course, reversing the changes--that is, lowering the income level at which cuts start, raising the rate at which benefits are reduced,

7. As in the tax option, this approach would include 85 percent of the insurance value of Medicare Part A benefits plus the insurance value of Part B benefits minus the premiums paid by participants.

8. These estimates do not include any loss of revenues from reducing the amounts of Social Security and unemployment compensation that are subject to taxation.

Table 12.
Budgetary Savings from Reducing Entitlement Benefits for Middle- and High-Income Recipients, Fiscal Years 1995-1999 (In billions of dollars)

Programs Affected	1995	1996	1997	1998	1999	1995-1999
All Programs[a]	9.4	45.4	42.2	44.9	47.9	189.8
All Programs Except Medicaid	9.3	44.4	41.2	43.8	46.6	185.3
All Programs Except Medicare and Medicaid	6.3	30.0	27.4	28.7	30.0	122.4
Cash Social Insurance Programs Only	6.3	29.6	26.9	28.1	29.4	120.3
Social Security and Medicare Only	8.4	39.8	37.1	39.5	42.3	167.1
Social Security Only	5.4	25.4	23.3	24.4	25.6	104.1
Means-Tested Programs Only	0	0.5	0.5	0.6	0.7	2.3

SOURCE: Congressional Budget Office.

NOTE: The table covers the following entitlements: cash social insurance (Social Security and Railroad Retirement, unemployment compensation, and veterans' compensation and pensions); health programs (Medicare and Medicaid); and means-tested programs (Supplemental Security Income, Aid to Families with Dependent Children, and the Food Stamp program).

a. The option including all programs is similar to the proposal of the Concord Coalition.

or taking more than 85 percent of benefits from high-income families--would increase budgetary savings and affect recipients more.

Deny Entitlements to High-Income Recipients

Members of Congress have recently called for legislation to deny entitlement benefits to families with very high incomes.[9] CBO therefore examined an option to take away all entitlements from recipients who have taxable incomes above certain thresholds (which would be adjusted for inflation). Furthermore, unlike the Concord Coalition's proposal to increase rates of benefit reduction gradually over an $80,000 range of income, this option would phase in the complete loss of benefits over a range of just $10,000. For the sake of consistency with the benefit reduction option, this one was formulated so as not to affect federal civilian or military pensions.

Unlike the benefit reduction option, the denial option would treat married couples and single individuals differently. It would establish different income thresholds for denying benefits. In 1995, single people with nonentitlement taxable incomes of more than $110,000 would lose all of their entitlement benefits, as would couples with incomes above $130,000. Singles and couples with total incomes including entitlements below $100,000 and $120,000, respectively, would lose no benefits. All other recipients (singles with incomes be-

9. For example, during the 103rd Congress, Senator Hank Brown proposed an amendment to H.R. 3167 that would have denied emergency unemployment benefits to people with taxable incomes exceeding $200,000.

Table 13.
Budgetary Savings from Denying Entitlement Benefits to High-Income Recipients, Fiscal Years 1995-1999 (In billions of dollars)

Programs Affected	1995	1996	1997	1998	1999	1995-1999
All Programs	4.1	10.1	9.3	10.0	10.7	44.2
All Programs Except Medicaid	4.1	10.1	9.3	9.9	10.6	44.0
All Programs Except Medicare and Medicaid	2.7	6.4	5.8	6.1	6.4	27.4
Cash Social Insurance Programs Only	2.7	6.4	5.8	6.1	6.4	27.4
Social Security and Medicare Only	4.0	9.8	9.1	9.7	10.4	43.0
Social Security Only	2.6	6.2	5.6	5.9	6.2	26.5
Means-Tested Programs Only	0	0	0	0	0	0

SOURCE: Congressional Budget Office.

NOTE: The table covers the following entitlements: cash social insurance (Social Security and Railroad Retirement, unemployment compensation, and veterans' compensation and pensions); health programs (Medicare and Medicaid); and means-tested programs (Supplemental Security Income, Aid to Families with Dependent Children, and the Food Stamp program).

tween $100,000 and $110,000 and couples with incomes between $120,000 and $130,000) would lose 50 percent of their benefits that fell between the two thresholds; they would lose all of their entitlements that raised their total income above the upper limits.

Thus, for example, a couple with $110,000 of nonentitlement income and $50,000 of entitlements would keep all of the first $10,000 of entitlements (up to the threshold of $120,000, the range in which no benefits are lost); half of the next $10,000 (that part of total income falling between $120,000 and $130,000, which is subject to a 50 percent reduction); and none of the remaining $30,000.

Budgetary Savings

Of the three options that CBO examined, eliminating the benefits that high-income families receive would have the smallest budgetary effect. The benefit denial option would save about $44 billion over five years, less than one-fourth as much as the other options (see the top line of Table 13).[10]

As was the case for the benefit reduction option, roughly three-fifths of those savings would derive from Social Security, with another third coming from Medicare. Hardly any savings would come from means-tested programs or from either unemployment compensation or veterans' programs. If the option covered only Social Security and Medicare, it would lose virtually no savings. Including only Social Security would reduce savings by about 40 percent.

One major drawback to this option is its potential for imposing an effective tax rate of more than 100 percent on nonentitlement income. Consider a woman

10. As in the benefit reduction option, the budgetary savings under the denial option would be offset by losses of revenue from reducing taxable benefits. Because this option would affect people who face above-average marginal tax rates and for whom 85 percent of Social Security benefits are currently taxable, the revenue offset would be a larger fraction of gross savings than under the benefit reduction option.

whose high level of income causes the loss of some but not all of her entitlements. If she got a raise and her nonentitlement income rose by a dollar, this option would reduce her entitlements by a dollar, leaving her pretax income unchanged. But that additional dollar of income from her raise would be subject to income and perhaps payroll taxes that could exceed 40 percent. Thus, the effective tax on her additional dollar of income would be more than $1.40--$1.00 in reduced entitlements and $0.40 in income and payroll taxes--leaving her less well off than before her raise. This high (140 percent) tax rate would, however, affect only recipients who lost benefits and whose nonentitlement incomes fell below the top of the range over which benefits were phased out. The narrower that range, the fewer the people who would be affected and the fewer the disincentives for recipients to earn more income.

Modifying the Benefit Denial Option

Two modifications to this option could change how many beneficiaries would be affected and the budgetary savings that would be realized. First, lowering by a modest amount the income threshold above which benefits were reduced would generate more savings (by denying entitlements to more beneficiaries) while continuing to protect the entitlements of lower-income families. Second, broadening the income range over which benefits were phased out would lower the budgetary savings somewhat by reducing the number of people who were denied benefits. In addition, although the latter change would lessen the disincentives to work for some individuals, its net effect might be to discourage work because it would subject more recipients to high tax rates.

Chapter Four

Distributional Effects

The three options that were analyzed and discussed in Chapter 3 differ not only in the amount of budgetary savings they would generate but also in the distribution of their impact--how they would affect different kinds of recipient families with different levels of income.[1] The tax option would affect the largest number of families, and its effects would be felt at all income levels: at least three-fifths of the families in every category of income except the lowest and nearly two-thirds of all recipient families would pay taxes on their benefits (see Table 14). In contrast, the denial option (families with the highest incomes lose all benefits) would affect only 1 percent of families who now receive entitlements, and virtually none of those affected would have incomes below $100,000. The benefit reduction option, which would lower entitlements going to middle- and high-income families, would cut benefits for about one-fifth of all recipients, almost all of whom would be in families with cash incomes above $30,000. These distributional effects could differ markedly, however, if the parameters of the options were changed so that the budgetary savings they generated were comparable.[2]

These effects of the three options are reflected in the distribution of their total savings among categories tax option would come from families with cash incomes of families. About one-fourth of the revenues from the below $20,000; nearly three-fourths would come from those with incomes below $50,000 (see Table 15). In contrast, nearly 90 percent of the savings from denying benefits to families with the highest incomes would be from families with incomes above $150,000, and virtually none would come from those with incomes under $100,000. Two-thirds of the savings from the option to reduce benefits would come from families with incomes above $75,000.

Because of the design of the three options, the impact of each would be progressive--that is, the share of benefits lost by affected families would increase sharply with income (see Table 16). Losses of benefits under the tax option would reflect the progressivity of the individual income tax. Families with incomes below $10,000 would lose about 4 percent of the value of their benefits, and those with incomes above $150,000 would give up about 19 percent of their benefits.

The other two options would have generally higher rates of benefit losses over wider ranges. The option to reduce benefits would curtail them by less than 2 percent for families with incomes below $40,000 while taking more than 80 percent from families with incomes above $150,000. The option denying benefits to the highest-income families would take about one-third of benefits from families with incomes between $100,000 and $150,000 and nearly 90 percent of the benefits going to families with incomes above $150,000.

The recently enacted Omnibus Budget Reconciliation Act of 1993 reduced after-tax Social Security benefits going to upper-income families. The tax option

1. The options examined in this chapter would affect benefits from Social Security and Railroad Retirement, unemployment compensation, veterans' compensation and pensions, Supplemental Security Income, Aid to Families with Dependent Children, the Food Stamp program, Medicare, and Medicaid.

2. Appendix A discusses CBO's methods for estimating the distributional effects of the policy options. Appendix B contains tables similar to those in this chapter for alternative versions of the three options that reduce total entitlements by roughly the same percentage.

Table 14.
Percentage of Recipient Families Losing Benefits Under Three Policy Options to Cut Net Entitlement Costs, by Family Income and Type

Family Category	Broaden Taxable Income to Include Entitlements	Reduce Benefits to Middle- and High-Income Recipients	Deny Benefits to High-Income Recipients
All Families	64	22	1
Income (1995 dollars)[a]			
1 to 9,999	48	0	0
10,000 to 19,999	71	b	0
20,000 to 29,999	72	1	0
30,000 to 39,999	69	20	0
40,000 to 49,999	64	74	0
50,000 to 74,999	61	75	0
75,000 to 99,999	62	74	b
100,000 to 149,999	67	77	9
150,000 or more	79	89	67
Type[c]			
With children	34	20	b
Elderly	85	25	2
Other	60	21	1

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTES: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

The table covers the following entitlements: Social Security and Railroad Retirement, unemployment compensation, veterans' compensation and pensions, Supplemental Security Income, Aid to Families with Dependent Children, the Food Stamp program, Medicare, and Medicaid. Food stamps are measured at face value; Medicare and Medicaid benefits are assigned their insurance value net of any premiums paid.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Less than 0.5 percent.

c. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

would extend those reductions to lower- and middle-income families.

Effects on Different Types of Families

The three options would affect different types of recipient families in widely varying ways. About five out of every six elderly families would pay taxes on their benefits under the tax option, compared with one-third of families with children and three-fifths of other families (see Table 14). The option to deny benefits to recipient families with the highest incomes would disproportionately affect elderly families compared with nonelderly families, although the option would cut benefits for just 2 percent of the elderly. In comparison, the option to reduce benefits for middle- and high-income families would affect between one-fifth and one-fourth of families of each type.

Table 15.
Distribution of Budgetary Savings Under Three Policy Options to Cut Net Entitlement Costs, by Family Income and Type (In percent)

Family Category	Broaden Taxable Income to Include Entitlements	Reduce Benefits to Middle- and High-Income Recipients	Deny Benefits to High-Income Recipients
All Families	100	100	100
Income (1995 dollars)[a]			
1 to 9,999	5	0	0
10,000 to 19,999	19	b	0
20,000 to 29,999	21	b	0
30,000 to 39,999	16	1	0
40,000 to 49,999	10	6	0
50,000 to 74,999	14	26	0
75,000 to 99,999	6	21	b
100,000 to 149,999	4	25	11
150,000 or more	3	21	89
Type[c]			
With children	9	12	b
Elderly	73	72	94
Other	18	15	5

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTES: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

The table covers the following entitlements: Social Security and Railroad Retirement, unemployment compensation, veterans' compensation and pensions, Supplemental Security Income, Aid to Families with Dependent Children, the Food Stamp program, Medicare, and Medicaid. Food stamps are measured at face value; Medicare and Medicaid benefits are assigned their insurance value net of any premiums paid.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Less than 0.5 percent.

c. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

In many instances, childless families and families with children would experience very different effects under the options. The tax and benefit denial options would affect childless families more than families with children, cutting much larger percentages of the benefits of the former. Under the option to reduce benefits, losses would be similar for all types of families (see Table 16).

Under the tax option, for example, affected families with children would pay 5 percent of their benefits in new taxes, compared with about 11 percent for childless families. Under the benefit reduction option, all three family types would face reductions in their benefits of about one-fifth.

Effects Among Programs

All three options would affect some entitlements more than others. Not surprisingly, recipients of means-

Table 16.
Percentage of Average Benefits Lost by Families Losing Benefits Under Three Policy Options to Cut Net Entitlement Costs, by Family Income and Type

Family Category	Broaden Taxable Income to Include Entitlements	Reduce Benefits to Middle- and High-Income Recipients	Deny Benefits to High-Income Recipients
All Families	10	23	77
Income (1995 dollars)[a]			
1 to 9,999	4	0	0
10,000 to 19,999	7	b	0
20,000 to 29,999	11	b	0
30,000 to 39,999	12	2	0
40,000 to 49,999	11	6	0
50,000 to 74,999	12	19	0
75,000 to 99,999	14	38	b
100,000 to 149,999	15	64	37
150,000 or more	19	81	89
Type[c]			
With children	5	20	b
Elderly	11	23	80
Other	10	22	57

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTES: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

The table covers the following entitlements: Social Security and Railroad Retirement, unemployment compensation, veterans' compensation and pensions, Supplemental Security Income, Aid to Families with Dependent Children, the Food Stamp program, Medicare, and Medicaid. Food stamps are measured at face value; Medicare and Medicaid benefits are assigned their insurance value net of any premiums paid.

a. Family income comprises all cash income plus the face value of food stamps; it excludes the value of other benefits received in kind. Families with zero or negative income are included only in totals.

b. Too few families would be affected to allow estimation of a statistically meaningful value.

c. Families with children are all families with at least one member under age 18. Elderly families are all families without children who have at least one member age 65 or older. Other families are all families not in the first two categories.

tested benefits would be both less likely to face cuts in their benefits and subject to smaller losses if they were affected than recipients of other entitlements (see Table 17 on page 44). Even so, the option to tax benefits would affect more than half of all families receiving Aid to Families with Dependent Children or food stamps and two-thirds of the families on Medicaid. Those families who owed additional taxes, however, would pay taxes amounting to less than one-tenth of their benefits.[3]

In contrast, the option to reduce benefits would affect less than one-tenth of families receiving any means-tested benefit--although those who were affected would lose more of their benefits. And virtually no families getting means-tested help would be affected by the option to deny benefits to high-income families.

Families who receive entitlements that are not subject to means tests would be more likely to lose benefits

3. Measuring the budgetary savings that should be credited to individual entitlements requires what is necessarily an arbitrary allocation of those savings. This analysis assumes that the taxes paid on total benefits or the reductions in total benefits are distributed among the various programs in proportion to the benefits received. Thus, for example, an individual who has to give up 10 percent of his or her total benefits to taxes or in reduced payments is assumed to lose 10 percent of the benefits he or she would receive from each program.

under any of the three options than families who receive means-tested benefits. In addition, those who are affected would lose more. At least three-quarters of the recipients of Social Security, veterans' benefits, or Medicare would be subject to higher taxes under the tax option, and their after-tax benefits would drop by an average of between 9 percent and 14 percent. The benefit reduction option would affect between one-fourth and two-fifths of families participating in those programs, reducing their benefits, on average, by between 20 percent and 25 percent. No more than 2 percent of families in any program would lose benefits under the denial option, but the average reduction would be about 40 percent for veterans' benefits and about 80 percent for Social Security and Medicare.

The fraction of families who would be affected and the average loss of benefits they would sustain combine to determine what part of a program's total benefits each option would save (see the last panel of Table 17). The burden of the tax option would be spread more evenly among the eight programs that the Congressional Budget Office examined than would the costs of the other policies, although significant variation occurs under each option. From each program the tax option would take at least 2 percent of benefits (from the Food Stamp program) and as much as 12 percent (from veterans' benefits). The benefit reduction option would leave food stamps virtually unaffected but would cut veterans' benefits by 10 percent. The denial option would get the bulk of its savings from Social Security and Medicare--it would reduce payments from each by about 2 percent. The different levels of budgetary savings of the three options reflect the variation among the programs in how much benefits would be reduced.

Table 17.
How Three Policy Options to Cut Net Entitlement Costs Affect the Benefits Lost by Recipient Families, by Program (In percent)

	Broaden Taxable Income to Include Entitlements	Reduce Benefits to Middle- and High-Income Recipients	Deny Benefits to High-Income Recipients
	Recipient Families Losing Benefits		
Cash Social Insurance Programs			
Social Security[a]	82	24	2
Unemployment compensation	b	32	c
Veterans' benefits[d]	78	39	1
Means-Tested Assistance			
Supplemental Security Income	83	7	c
Aid to Families with Dependent Children[e]	59	5	c
Food stamps	57	2	c
Health Programs			
Medicare	84	23	2
Medicaid	67	6	c
All Benefits	64	22	1
	Benefits Lost by Families Losing Benefits		
Cash Social Insurance Programs			
Social Security[a]	9	23	78
Unemployment compensation	b	25	48
Veterans' benefits[d]	14	21	40
Means-Tested Assistance			
Supplemental Security Income	8	18	f
Aid to Families with Dependent Children[e]	5	13	f
Food stamps	5	f	f
Health Programs			
Medicare	13	23	80
Medicaid	7	16	f
All Benefits	10	23	77

Table 17.
Continued

	Broaden Taxable Income to Include Entitlements	Reduce Benefits to Middle- and High-Income Recipients	Deny Benefits to High-Income Recipients
	Benefits Lost by All Recipient Families		
Cash Social Insurance Programs			
Social Security[a]	8	7	2
Unemployment compensation	b	9	c
Veterans' benefits[d]	12	10	c
Means-Tested Assistance			
Supplemental Security Income	7	2	c
Aid to Families with Dependent Children[e]	4	1	c
Food stamps	2	c	c
Health Programs			
Medicare	11	6	2
Medicaid	5	1	c
All Benefits	7	5	1

SOURCE: Congressional Budget Office based on data from the Census Bureau's March 1991 Current Population Survey, the Internal Revenue Service's 1990 Statistics of Income, and administrative statistics from individual entitlement programs.

NOTE: Families are groups of related people living together. Individuals not living with relatives are considered one-person families.

a. Includes Railroad Retirement benefits.

b. The tax option would not affect recipients of unemployment compensation because that entitlement is already subject to income taxation.

c. Less than 0.5 percent.

d. Veterans' benefits comprise veterans' compensation and veterans' pensions.

e. Because the data do not distinguish accurately between recipients of Aid to Families with Dependent Children (AFDC) and recipients of general assistance, some recipients of general assistance are included with recipients of AFDC.

f. Too few families would be affected to allow estimation of a statistically meaningful value.